

CITY OF NORTH ROYALTON, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Honorable Mayor, Finance Director,
and Members of City Council
City of North Royalton
13834 Ridge Road
North Royalton, Ohio 44133

We have reviewed the Independent Auditor's Report of the City of North Royalton, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of North Royalton is responsible for compliance with these laws and regulations.

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JIM PETRO
Auditor of State

July 9, 2002

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CITY OF NORTH ROYALTON, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2001

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CITY OF NORTH ROYALTON

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CITY OF NORTH ROYALTON

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Christmas Tree Lighting Fund
Mayor's Court Fund
Courts Computer Services Fund

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INDEPENDENT ACCOUNTANT'S REPORT

Honorable Mayor, Finance Director,
and Members of City Council
City of North Royalton, Ohio

We have audited the accompanying general purpose financial statements of the City of North Royalton, Ohio, as of and for the year ended December 31, 2001. These general purpose financial statements are the responsibility of the City of North Royalton, Ohio's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of North Royalton, Ohio, as of December 31, 2001, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended December 31, 2001 the City adopted Governmental Accounting Standards Board Statements No. 33 and 36.

In accordance with Government Auditing Standards, we have also issued a report dated May 23, 2002 on our consideration of the City of North Royalton, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

June 14, 2002

James G. Zupka
Certified Public Accountant

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2001

<u>Assets and Other Debits</u>	<u>Governmental Fund Types</u>				<u>Proprietary Fund Type</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>
Equity in Pooled Cash and Cash Equivalents	\$ 3,868,767	\$ 2,607,112	\$ 296,265	\$ 4,230,782	\$ 4,327,709	\$ 225,277
Cash and Cash Equivalents in Segregated Accounts	0	114,349	0	0	0	1,148
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	8,197	0	0	0
Receivables:						
Taxes	3,427,047	3,413,275	317,995	0	0	0
Accounts	42,213	39,886	0	25,228	1,222,671	0
Accrued Interest	36,646	0	0	4,078	10,592	507
Special Assessments	0	0	1,055,193	0	0	0
Due from Other Governments	412,154	590,308	17,888	0	0	0
Inventory	11,898	120,651	0	0	11,147	0
Prepaid Items	53,458	13,366	0	0	19,098	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0	23,271,966	0
Other Debits:						
Amount Available in Debt Service Fund for Retirement of General Obligation Bond	0	0	0	0	0	0
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0
Total Assets and Other Debits	<u><u>\$ 7,852,183</u></u>	<u><u>\$ 6,898,947</u></u>	<u><u>\$ 1,695,538</u></u>	<u><u>\$ 4,260,088</u></u>	<u><u>\$28,863,183</u></u>	<u><u>\$ 226,932</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2001
 (Continued)

	<u>Account Groups</u>			Totals (Memorandum Only)
	Fiduciary	General	General	
	<u>Fund Type</u>	Fixed Assets	Long-Term Obligations	
<u>Agency</u>				
<u>Assets and Other Debits</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 538,470	\$ 0	\$ 0	\$ 16,094,382
Cash and Cash Equivalents in Segregated Accounts	4,339	0	0	119,836
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	0	8,197
Receivables:				
Taxes	0	0	0	7,158,317
Accounts	0	0	0	1,329,998
Accrued Interest	0	0	0	51,823
Special Assessments	0	0	0	1,055,193
Due from Other Governments	0	0	0	1,020,350
Inventory	0	0	0	143,696
Prepaid Items	0	0	0	85,922
Fixed Assets (Net of Accumulated Depreciation)	0	13,837,524	0	37,109,490
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Obligation Bond	0	0	296,265	296,265
Amount to be Provided for General Long-Term Obligations	0	0	5,238,346	5,238,346
Total Assets and Other Debits	\$ 542,809	\$ 13,837,524	\$ 5,534,611	\$ 69,711,815

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2001
 (Continued)

Liabilities, Fund Equity, and Other Credits	Governmental Fund Types				Proprietary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Liabilities:						
Accounts Payable	\$ 110,208	\$ 63,862	\$ 0	\$ 6	\$ 51,986	\$ 0
Contracts Payable	21,825	62,061	0	10,130	0	0
Claims Payable	0	0	0	0	0	3,324
Accrued Wages and Benefits	207,328	61,868	0	0	26,086	0
Undistributed Monies	0	0	0	0	0	0
Due to Governments	105,235	31,925	0	0	12,662	0
Deposits Held and Due to Others	0	0	0	0	0	0
Liabilities from Restricted Assets	0	0	0	0	0	1,148
Deferred Revenue	2,612,984	3,678,105	1,391,076	0	0	0
Matured Interest Payable	0	0	3,197	0	0	0
Matured Bonds Payable	0	0	5,000	0	0	0
General Obligation Notes Payable	152,000	248,000	0	1,200,000	0	0
General Obligation Bonds Payable	0	0	0	0	0	0
Capital Lease Commitment Payable	0	0	0	0	0	0
Special Assessment Commitment						
Bonds Payable	0	0	0	0	0	0
OWDA Bonds Payable	0	0	0	0	23,689,179	0
OPWC	0	0	0	0	957,028	0
Compensated Absences Payable	154,355	63,160	0	0	154,865	0
Ohio Police and Fire Pension						
Accrued Liability	0	0	0	0	0	0
Total Liabilities	3,363,935	4,208,981	1,399,273	1,210,136	24,891,806	4,472
Fund Equity and Other Credits:						
Investment in General Fixed Assets	0	0	0	0	0	0
Contributed Capital	0	0	0	0	10,768,420	0
Retained Earnings:						
Unreserved	0	0	0	0	(6,797,043)	222,460
Fund Balances						
Reserved for Inventory	11,898	120,651	0	0	0	0
Reserved for Prepaid Items	53,458	13,366	0	0	0	0
Reserved for Encumbrances	240,314	147,639	0	681,479	0	0
Reserved for Debt Service Fund	0	0	296,265	0	0	0
Unreserved:						
Undesignated	4,182,578	2,408,310	0	2,368,473	0	0
Total Fund Equity (Deficit) and Other Credits	4,488,248	2,689,966	296,265	3,049,952	3,971,377	222,460
Total Liabilities, Fund Equity and Other Credits	\$ 7,852,183	\$ 6,898,947	\$ 1,695,538	\$ 4,260,088	\$28,863,183	\$ 226,932

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2001
 (Continued)

<u>Liabilities, Fund Equity, and Other Credits</u>	<u>Fiduciary Fund Type Agency</u>	<u>Account Groups</u>		Totals (Memorandum Only)
		General	General	
		<u>Fixed Assets</u>	<u>Long-Term Obligations</u>	
Liabilities:				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 226,062
Contracts Payable	0	0	0	94,016
Claims Payable	0	0	0	3,324
Accrued Wages and Benefits	0	0	0	295,282
Undistributed Monies	97,888	0	0	97,888
Due to Governments	0	0	400,593	550,415
Deposits Held and Due to Others	444,921	0	0	444,921
Liabilities from Restricted Assets	0	0	0	1,148
Deferred Revenue	0	0	0	7,682,165
Matured Interest Payable	0	0	0	3,197
Matured Bonds Payable	0	0	0	5,000
General Obligation Notes Payable	0	0	0	1,600,000
General Obligation Bonds Payable	0	0	2,491,137	2,491,137
Capital Lease Commitment Payable	0	0	76,462	76,462
Special Assessment Commitment				
Bonds Payable	0	0	660,866	660,866
OWDA Bonds Payable	0	0	0	23,689,179
OPWC	0	0	0	957,028
Compensated Absences Payable	0	0	1,764,345	2,136,725
Ohio Police and Fire Pension				
Accrued Liability	0	0	141,208	141,208
Total Liabilities	542,809	0	5,534,611	41,156,023
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	13,837,524	0	13,837,524
Contributed Capital	0	0	0	10,768,420
Retained Earnings:				
Unreserved	0	0	0	(6,574,583)
Fund Balances				
Reserved for Inventory	0	0	0	132,549
Reserved for Prepaid Items	0	0	0	66,824
Reserved for Encumbrances	0	0	0	1,069,432
Reserved for Debt Service	0	0	0	296,265
Unreserved:				
Undesignated	0	0	0	8,959,361
Total Fund Equity (Deficit) and Other Credits	0	13,837,524	0	28,555,792
Total Liabilities, Fund Equity and Other Credits	\$ 542,809	\$ 13,837,524	\$ 5,534,611	\$ 69,711,815

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2001

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Local Taxes - Income Tax	\$6,543,087	\$1,118,378	\$ 0	\$ 0	\$7,661,465
Local Taxes - Property Tax	836,075	2,616,051	298,933	0	3,751,059
Intergovernmental Revenue	1,178,894	1,386,345	38,528	268,519	2,872,286
Special Assessments	0	0	85,871	0	85,871
Charges for Services	245,698	718,349	0	117,650	1,081,697
Fines, Licenses, and Permits	713,353	22,826	0	259,146	995,325
Interest Income	434,049	1,998	0	90,732	526,779
Miscellaneous	37,525	80,623	0	3,371	121,519
Total Revenues	<u>9,988,681</u>	<u>5,944,570</u>	<u>423,332</u>	<u>739,418</u>	<u>17,096,001</u>
Expenditures					
Current:					
Security of Persons and Property	3,636,096	3,851,834	0	0	7,487,930
Public Health	163,242	119,860	0	0	283,102
Leisure Time Activities	361,493	192,632	0	0	554,125
Community Development	647,768	0	0	0	647,768
Basic Utilities Expenditures	1,220,398	35,647	0	106,804	1,362,849
Transportation	0	1,749,599	0	0	1,749,599
General Government	1,894,112	7,926	1,212	0	1,903,250
Capital Outlay	329,212	773,338	0	566,827	1,669,377
Debt Service:					
Principal Retirement	35,737	0	232,350	0	268,087
Interest and Fiscal Charges	15,847	14,066	166,025	54,600	250,538
Total Expenditures	<u>8,303,905</u>	<u>6,744,902</u>	<u>399,587</u>	<u>728,231</u>	<u>16,176,625</u>
Excess (Deficiency) of Revenues Over(Under) Expenditures	1,684,776	(800,332)	23,745	11,187	919,376
Other Financing Sources (Uses)					
Transfers In	205,000	793,013	0	0	998,013
Transfers Out	(897,500)	(100,513)	0	0	(998,013)
Total Other Financing Sources (Uses)	<u>(692,500)</u>	<u>692,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	992,276	(107,832)	23,745	11,187	919,376
Fund Balance Surplus (Deficit), as Restated	3,493,470	2,794,572	272,520	3,038,765	9,599,327
Increase (Decrease) in Reserve for Inventory	2,502	3,226	0	0	5,728
Fund Balances at End of Year	<u><u>\$4,488,248</u></u>	<u><u>\$2,689,966</u></u>	<u><u>\$ 296,265</u></u>	<u><u>\$3,049,952</u></u>	<u><u>\$10,524,431</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2001

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Municipal Income Tax	\$ 5,163,221	\$ 6,472,790	\$ 1,309,569	\$ 1,225,171	\$ 1,099,852	\$ (125,319)
Property and Other Taxes	833,863	836,074	2,211	2,601,668	2,616,051	14,383
Intergovernmental Revenues	1,016,198	1,250,990	234,792	1,509,924	1,362,530	(147,394)
Special Assessments	0	0	0	0	0	0
Charges for Services	191,966	243,566	51,600	471,623	528,845	57,222
Fines, Licenses, and Permits	543,828	690,008	146,180	15,347	22,826	7,479
Interest Income	386,104	489,888	103,784	1,714	2,135	421
Miscellaneous	30,087	39,854	9,767	152,475	94,324	(58,151)
Total Revenues	<u>8,165,267</u>	<u>10,023,170</u>	<u>1,857,903</u>	<u>5,977,922</u>	<u>5,726,563</u>	<u>(251,359)</u>
Expenditures						
Current:						
Security of Persons and Property	4,059,924	3,561,775	498,149	4,122,661	3,854,379	268,282
Public Health and Welfare	176,446	161,993	14,453	140,050	123,028	17,022
Leisure Time Activities	431,150	359,331	71,819	0	0	0
Community Development	731,029	654,303	76,726	0	0	0
Basic Utilities Services	1,391,586	1,218,080	173,506	263,548	39,294	224,254
Transportation	0	0	0	2,774,816	1,841,017	933,799
General Government	2,488,890	2,048,940	439,950	8,000	7,926	74
Capital Outlay	451,491	402,868	48,623	930,218	841,121	89,097
Debt Service:						
Principal Retirement	226,499	225,737	762	310,270	310,000	270
Interest and Fiscal Charges	15,901	15,847	54	74,230	14,066	60,164
Total Expenditures	<u>9,972,916</u>	<u>8,648,874</u>	<u>1,324,042</u>	<u>8,623,793</u>	<u>7,030,831</u>	<u>1,592,962</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,807,649)</u>	<u>1,374,296</u>	<u>3,181,945</u>	<u>(2,645,871)</u>	<u>(1,304,268)</u>	<u>1,341,603</u>
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	152,000	152,000	0	248,000	248,000	0
Operating Transfers In	205,000	205,000	0	833,013	793,013	(40,000)
Operating Transfers Out	(1,002,500)	(897,500)	105,000	(238,193)	(100,513)	137,680
Total Other Financing Sources (Uses)	<u>(645,500)</u>	<u>(540,500)</u>	<u>105,000</u>	<u>842,820</u>	<u>940,500</u>	<u>97,680</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	<u>(2,453,149)</u>	<u>833,796</u>	<u>3,286,945</u>	<u>(1,803,051)</u>	<u>(363,768)</u>	<u>1,439,283</u>
Fund Balances at Beginning of Year	2,356,186	2,356,186	0	2,199,000	2,199,000	0
Prior Year Encumbrances						
Appropriated	385,353	385,353	0	511,090	511,090	0
Fund Balances at End of Year	<u>\$ 288,390</u>	<u>\$ 3,575,335</u>	<u>\$ 3,286,945</u>	<u>\$ 907,039</u>	<u>\$ 2,346,322</u>	<u>\$ 1,439,283</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2001

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Municipal Income Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Property and Other Taxes	297,846	298,933	1,087	0	0	0
Intergovernmental Revenues	38,388	38,528	140	5,756,436	343,493	(5,412,943)
Special Assessments	45,000	85,871	40,871	0	0	0
Charges for Services	0	0	0	138,286	118,700	(19,586)
Fines, Licenses, and Permits	0	0	0	158,326	285,220	126,894
Interest Income	0	0	0	96,294	99,248	2,954
Miscellaneous	0	0	0	72,178	141,656	69,478
Total Revenues	<u>381,234</u>	<u>423,332</u>	<u>42,098</u>	<u>6,221,520</u>	<u>988,317</u>	<u>(5,233,203)</u>
Expenditures						
Current:						
Security of Persons and Property	0	0	0	0	0	0
Public Health and Welfare	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Basic Utilities	0	0	0	397,900	280,698	117,202
Transportation	0	0	0	0	0	0
General Government	7,000	1,212	5,788	0	0	0
Capital Outlay	0	0	0	7,539,086	1,258,957	6,280,129
Debt Service:						
Principal Retirement	269,000	232,350	36,650	1,200,000	1,200,000	0
Interest and Fiscal Charges	175,500	166,025	9,475	55,000	54,600	400
Total Expenditures	<u>451,500</u>	<u>399,587</u>	<u>51,913</u>	<u>9,191,986</u>	<u>2,794,255</u>	<u>6,397,731</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(70,266)	23,745	94,011	(2,970,466)	(1,805,938)	1,164,528
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	0	0	0	1,200,000	1,200,000	0
Operating Transfers In	0	0	0	161,680	0	(161,680)
Operating Transfers Out	0	0	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,361,680</u>	<u>1,200,000</u>	<u>(161,680)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	(70,266)	23,745	94,011	(1,608,786)	(605,938)	1,002,848
Fund Balances at Beginning of Year	272,520	272,520	0	3,273,324	3,273,324	0
Prior Year Encumbrances						
Appropriated	0	0	0	871,784	871,784	0
Fund Balances at End of Year	<u>\$ 202,254</u>	<u>\$ 296,265</u>	<u>\$ 94,011</u>	<u>\$ 2,536,322</u>	<u>\$ 3,539,170</u>	<u>\$ 1,002,848</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Totals (Memorandum Only)</u>		
	Revised <u>Budget</u>	Actual	Variance Favorable (Unfavorable)
Revenues			
Municipal Income Tax	\$ 6,388,392	\$ 7,572,642	\$ 1,184,250
Property and Other Taxes	3,733,377	3,751,058	17,681
Intergovernmental Revenues	8,320,946	2,995,541	(5,325,405)
Special Assessments	45,000	85,871	40,871
Charges for Services	801,875	891,111	89,236
Fines, Licenses, and Permits	717,501	998,054	280,553
Interest Income	484,112	591,271	107,159
Other	254,740	275,834	21,094
Total Revenues	<u>20,745,943</u>	<u>17,161,382</u>	<u>(3,584,561)</u>
Expenditures			
Current:			
Security of Persons and Property	8,182,585	7,416,154	766,431
Public Health and Welfare	316,496	285,021	31,475
Leisure Time Activities	431,150	359,331	71,819
Community Development	731,029	654,303	76,726
Basic Utilities	2,053,034	1,538,072	514,962
Transportation	2,774,816	1,841,017	933,799
General Governments	2,503,890	2,058,078	445,812
Capital Outlay	8,920,795	2,502,946	6,417,849
Debt Service:			
Principal Retirement	2,005,769	1,968,087	37,682
Interest and Fiscal Charges	320,631	250,538	70,093
Total Expenditures	<u>28,240,195</u>	<u>18,873,547</u>	<u>9,366,648</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,494,252)</u>	<u>(1,712,165)</u>	<u>5,782,087</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Notes	1,600,000	1,600,000	0
Operating Transfers In	1,199,693	998,013	(201,680)
Operating Transfers Out	(1,240,693)	(998,013)	242,680
Total Other Financing Sources (Uses)	<u>1,559,000</u>	<u>1,600,000</u>	<u>41,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	<u>(5,935,252)</u>	<u>(112,165)</u>	<u>5,823,087</u>
Fund Balance at Beginning of Year	8,101,030	8,101,030	0
Prior Year Encumbrances Appropriated	1,768,227	1,768,227	0
Fund Balance at End of Year	<u><u>\$ 3,934,005</u></u>	<u><u>\$ 9,757,092</u></u>	<u><u>\$ 5,823,087</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN FUND EQUITY (DEFICIT) - ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Proprietary Fund Types</u>		Totals
	<u>Enterprise</u>	Internal <u>Service</u>	(Memorandum <u>Only</u>)
<u>Operating Revenues</u>			
Charges for Services	\$ 4,430,414	\$ 596,560	\$ 5,026,974
Miscellaneous	13,146	0	13,146
Total Operating Revenues	<u>4,443,560</u>	<u>596,560</u>	<u>5,040,120</u>
<u>Operating Expenses</u>			
Personal Services	1,053,180	0	1,053,180
Materials and Supplies	231,224	0	231,224
Contractual Services	694,291	304,916	999,207
Claims	0	398,491	398,491
Depreciation	2,067,624	0	2,067,624
Total Operating Expenses	<u>4,046,319</u>	<u>703,407</u>	<u>4,749,726</u>
Operating Income (Loss)	<u>397,241</u>	<u>(106,847)</u>	<u>290,394</u>
<u>Non-Operating Revenues (Expenses)</u>			
Investment Earnings	169,808	8,631	178,439
Gain on Disposal of Fixed Assets	4,515	0	4,515
Interest and Fiscal Charges	(1,274,621)	0	(1,274,621)
Total Non-Operating Revenues (Expenses)	<u>(1,100,298)</u>	<u>8,631</u>	<u>(1,091,667)</u>
Net Income (Loss)	<u>(703,057)</u>	<u>(98,216)</u>	<u>(801,273)</u>
Retained Earnings (Deficit) at Beginning of Year	(6,093,986)	320,676	(5,773,310)
Retained Earnings (Deficit) at End of Year	<u>(6,797,043)</u>	<u>222,460</u>	<u>(6,574,583)</u>
Contributed Capital at Beginning of Year	10,090,974	0	10,090,974
Contributions During the Year:			
Sewer Tap-In	646,130	0	646,130
Donated Assets	31,316	0	31,316
	<u>677,446</u>	<u>0</u>	<u>677,446</u>
Contributed Capital at End of Year	<u>10,768,420</u>	<u>0</u>	<u>10,768,420</u>
Total Fund Equity (Deficit) at End of Year	<u><u>\$ 3,971,377</u></u>	<u><u>\$ 222,460</u></u>	<u><u>\$ 4,193,837</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2001

	Enterprise Funds			Internal Service Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues						
Charges for Services	\$ 4,306,904	\$ 4,445,750	\$ 138,846	\$ 596,000	\$ 596,560	\$ 560
Sewer Tap-in Fees	579,430	646,130	66,700	0	0	0
Miscellaneous	35,877	34,001	(1,876)	0	0	0
Total Revenues	<u>4,922,211</u>	<u>5,125,881</u>	<u>203,670</u>	<u>596,000</u>	<u>596,560</u>	<u>560</u>
Operating Expenses						
Personal Services	1,283,200	1,040,039	243,161	0	0	0
Contractual Services	836,110	678,563	157,547	362,256	304,916	57,340
Claims	0	0	0	637,744	536,798	100,946
Materials and Supplies	298,050	213,753	84,297	0	0	0
Capital Outlay	474,186	95,195	378,991	0	0	0
Debt Service:						
Principal Retirement	1,293,000	1,286,659	6,341	0	0	0
Interest and Fiscal Charges	1,279,000	1,274,621	4,379	0	0	0
Total Expenses	<u>5,463,546</u>	<u>4,588,830</u>	<u>874,716</u>	<u>1,000,000</u>	<u>841,714</u>	<u>158,286</u>
Operating Income (Loss)	<u>(541,335)</u>	<u>537,051</u>	<u>1,078,386</u>	<u>(404,000)</u>	<u>(245,154)</u>	<u>158,846</u>
Non-Operating Revenue Expenses						
Investment Earnings	187,810	190,204	2,394	13,000	14,043	1,043
Total Non-Operating Revenue (Expenses)	<u>187,810</u>	<u>190,204</u>	<u>2,394</u>	<u>13,000</u>	<u>14,043</u>	<u>1,043</u>
Income (Loss) Before Operating Transfers	<u>(353,525)</u>	<u>727,255</u>	<u>1,080,780</u>	<u>(391,000)</u>	<u>(231,111)</u>	<u>159,889</u>
Operating Transfers						
Operating Transfers In	50,000	0	(50,000)	0	0	0
Total Operating Transfers	<u>50,000</u>	<u>0</u>	<u>(50,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Income (Loss)	<u>(303,525)</u>	<u>727,255</u>	<u>1,030,780</u>	<u>(391,000)</u>	<u>(231,111)</u>	<u>159,889</u>
Retained Earnings at Beginning of Year	3,490,819	3,490,819	0	456,388	456,388	0
Prior Year Encumbrances Appropriated	75,341	75,341	0	0	0	0
Retained Earnings at End of Year	<u><u>\$ 3,262,635</u></u>	<u><u>\$ 4,293,415</u></u>	<u><u>\$ 1,030,780</u></u>	<u><u>\$ 65,388</u></u>	<u><u>\$ 225,277</u></u>	<u><u>\$ 159,889</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2001
 (CONTINUED)

	<u>Totals (Memorandum Only)</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable Unfavorable)</u>
<u>Operating Revenues</u>			
Charges for Services	\$ 4,902,904	\$ 5,042,310	\$ 139,406
Sewer Tap-in Fees	579,430	646,130	66,700
Miscellaneous	35,877	34,001	(1,876)
Total Revenues	<u>5,518,211</u>	<u>5,722,441</u>	<u>204,230</u>
<u>Operating Expenses</u>			
Personal Services	1,283,200	1,040,039	243,161
Contractual Services	1,198,366	983,479	214,887
Claims	637,744	536,798	100,946
Materials and Supplies	298,050	213,753	84,297
Capital Outlay	474,186	95,195	378,991
Debt Service:			
Principal Retirement	1,293,000	1,286,659	6,341
Interest and Fiscal Charges	1,279,000	1,274,621	4,379
Total Expenses	<u>6,463,546</u>	<u>5,430,544</u>	<u>1,033,002</u>
Operating Income (Loss)	<u>(945,335)</u>	<u>291,897</u>	<u>1,237,232</u>
<u>Non-Operating Revenue (Expenses)</u>			
Investment Earnings	200,810	204,247	3,437
Total Non-Operating Revenue (Expenses)	<u>200,810</u>	<u>204,247</u>	<u>3,437</u>
Income (Loss) before Operating Transfers	<u>(744,525)</u>	<u>496,144</u>	<u>1,240,669</u>
<u>Operating Transfers</u>			
Operating Transfers In	50,000	0	(50,000)
Total Operating Transfers	<u>50,000</u>	<u>0</u>	<u>(50,000)</u>
Net Income (Loss)	<u>(694,525)</u>	<u>496,144</u>	<u>1,190,669</u>
Retained Earnings at Beginning of Year	3,947,207	3,947,207	0
Prior Year Encumbrances Appropriated	75,341	75,341	0
Retained Earnings at End of Year	<u><u>\$ 3,328,023</u></u>	<u><u>\$ 4,518,692</u></u>	<u><u>\$ 1,190,669</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Proprietary Fund Types</u>		Totals
	<u>Enterprise</u>	<u>Internal Service</u>	(Memorandum Only)
<u>Increase (Decrease) in Cash and Cash Equivalents</u>			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Quasi-External Transactions with Other Funds	\$ 0	\$ 588,000	\$ 588,000
Cash Received from Customers and Users	4,445,750	8,560	4,454,310
Cash Payments for Contractual and Other Services	(915,980)	0	(915,980)
Cash Payments for Employee Services and Benefits	(1,040,039)	(304,916)	(1,344,955)
Cash Payments for Claims	0	(536,798)	(536,798)
Other Operating Revenue	34,001	0	34,001
Net Cash Provided by (Used for) Operating Activities	<u>2,523,732</u>	<u>(245,154)</u>	<u>2,278,578</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Sewer Tap-In Fees	646,130	0	646,130
Principal Paid on Loans	(1,286,659)	0	(1,286,659)
Interest Paid on Loans	(1,274,621)	0	(1,274,621)
Net Cash Used by Capital and Related Financing Activities	<u>(1,915,150)</u>	<u>0</u>	<u>(1,915,150)</u>
<u>Cash Flows from Investing Activities</u>			
Interest on Investments	190,204	14,043	204,247
Acquisition of Fixed Assets	(37,239)	0	(37,239)
Net Cash Provided by Investing Activities	<u>152,965</u>	<u>14,043</u>	<u>167,008</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>761,547</u>	<u>(231,111)</u>	<u>530,436</u>
Cash and Cash Equivalents at Beginning of Year	3,566,162	456,388	4,022,550
Cash and Cash Equivalents at End of Year	<u>4,327,709</u>	<u>225,277</u>	<u>4,552,986</u>
<u>Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities</u>			
Operating Income (Loss)	<u>397,241</u>	<u>(106,847)</u>	<u>290,394</u>
<u>Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used for) Operating Activities</u>			
Depreciation	2,067,624	0	2,067,624
Changes in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Accounts Receivable	15,336	0	15,336
Inventory	(1,687)	0	(1,687)
Prepaid Items	(3,641)	0	(3,641)
Due from Governments	20,855	0	20,855
Increase (Decrease) in Liabilities:			
Accounts Payable	13,363	0	13,363
Accrued Wages and Benefits	4,801	0	4,801
Compensated Absences Payable	11,548	0	11,548
Due to Other Governments	(1,708)	0	(1,708)
Claims Payable	0	(138,307)	(138,307)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 2,523,732</u>	<u>\$ (245,154)</u>	<u>\$ 2,278,578</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Description of the Entity**

The City

The City of North Royalton, Ohio (the “City”) is a charter municipal corporation established and operated under the laws of the State of Ohio. A charter was first adopted by the electorate on January 1, 1952. The current charter provides for a council-mayor form of government. Elected officials include seven council members and a mayor.

Reporting Entity

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2001, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB’s *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

In evaluating how to define the governmental reporting entity, the City adopted the provision of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions, and component units for which the City (primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and either **(1)** the City’s ability to impose its will over the component unit, or **(2)** the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

The accompanying financial statements have two component units. The financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Description of the Entity** (Continued)

Reporting Entity (Continued)

Also, the City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 8. These organizations are:

Southwest Council of Governments
Parma Community General Hospital Association

Blended Component Unit

The Baseball and Soccer Boosters serve all the citizens of the government and is governed by a board comprised of the government's elected council. The rates for user charges and bond issuance authorizations are approved by the government's council and the legal liability for the general obligation portion of the Boosters debt remains with the government. The Boosters are reported as a special revenue fund.

B. **Basis of Presentation**

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories of governmental, proprietary, and fiduciary.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation** (Continued)

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except for those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - The general fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - Special revenue funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulations of resources for, and the payment of, general and special assessment long-term debt principal and interest.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The following are the City's proprietary fund types:

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation** (Continued)

Proprietary Fund Types (Continued)

Enterprise Fund - The enterprise fund is used to account for the City's wastewater fund. It is financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - An internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund is used to account for the medical self-insurance fund.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. There are two types of fiduciary funds: trust and agency. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - The general fixed assets account group is used to account for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group - The general long-term obligations account group is used to account for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary funds.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenues considered susceptible to accrual at year end include income taxes withheld by employers, interest on investments, special assessment, and state levied locally shared taxes (including motor vehicle license fees, and local government assistance). Other revenues, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until actually received.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Basis of Accounting** (Continued)

Special assessment installments which are measurable, but not available at December 31, are recorded as deferred revenue. Property taxes measurable as of December 31, 2001, but which are not intended to finance 2001 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

With respect to proprietary activities, the City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting*. The City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict pronouncements.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated. An annual appropriation budget is prepared for all government and proprietary funds of the City. Budgetary control is maintained by fund at the major object level (personal services, materials and supplies, contractual services, and capital outlay) by department.

The City's budgetary process is as follows:

Budget - A tax budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31, of the following year. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council of the City by November 15 of each year for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (Continued)

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed. However, none were significant in amount. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the fund, department, and object level. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and are disclosed in the notes to the financial statements for proprietary funds.

Budgetary Basis of Accounting

The City's budget (budget basis) accounts for certain transactions on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and GAAP basis are that:

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2001
 (CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (Continued)

Budgetary Basis of Accounting (Continued)

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes;
2. Expenditures are recorded when paid in cash for budget purposes as opposed to when the liability is incurred for GAAP purposes;
3. Encumbrances are treated as expenditures/expenses for all funds (budget) as opposed to reservation of fund balances for governmental fund types or as note disclosures in the proprietary fund types.(GAAP)

A reconciliation of the results of operations for the year from the GAAP basis to the budgetary basis for governmental fund types and proprietary fund types is as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds
GAAP Basis	\$ 992,276	\$ (107,832)	\$ 23,745	\$ 11,187
Increase (Decrease) Due to:				
Revenue Accruals	34,489	(218,007)	0	248,899
Expenditures Accruals	138,338	285,379	0	(174,415)
Proceeds	152,000	248,000	0	1,200,000
Principal Retirement	(190,000)	(310,000)	0	(1,200,000)
Net Impact of Encumbrances on Budget Basis				
Expenditures	(293,307)	(261,308)	0	(691,609)
Budgetary Basis	\$ 833,796	\$ (363,768)	\$ 23,745	\$ (605,938)

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2001
 (CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (Continued)

Budgetary Basis of Accounting (Continued)

Excess (Deficiency) of Revenues Over (Under) Expenses, Advances, and Transfers/Net Income (Loss)	Enterprise Funds	Internal Service
Net Income (Loss)	\$ (703,057)	\$ (98,216)
Increase(Decrease) Due to:		
Revenue Accruals	52,072	5,412
Sewer Tap-In Proceeds	646,130	0
Expense Accruals	(14,563)	(138,307)
Principal Retirement	(1,286,659)	0
Depreciation Expense	2,067,624	0
Budget Basis Encumbrances	(34,292)	0
Budget Basis	\$ 727,255	\$(231,111)

E. **Cash and Investments**

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

The City's portfolio was limited to nonparticipating interest-earning investment contracts and State Treasury Asset Reserve of Ohio (STAROhio). Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Cash and Investments** (Continued)

The City also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2001.

The City's policy is to hold investments until maturity, or until market values equal or exceed cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue has been properly credited to the respective funds in 2001.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" and "cash and cash equivalents with fiscal and escrow agents" since they are not required to be deposited into the City's treasury.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. **Inventory**

Inventory of governmental funds is stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary fund

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. **Inventory** (Continued)

types when used. Reported materials and supplies are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. Prepaid items are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

H. **Fixed Assets and Depreciation**

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the general fixed assets account group. Infrastructure fixed assets such as streets, storm sewers and drains, and traffic signals and signs are not capitalized by the City and are not reported as part of the general fixed assets account group.

Fixed assets utilized in proprietary funds are capitalized in the funds.

Fixed asset values were initially determined at December 31, 1988, assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the useful lives of the related fixed assets.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. **Fixed Assets and Depreciation** (Continued)

The City has elected not to record depreciation in the general fixed assets account group. Depreciation for the enterprise fund fixed assets is determined by allocating the cost of fixed assets over the estimated useful lives of the assets on a straight-line basis. The estimated useful lives are as follows:

Buildings	40-50 years
Improvements other than Buildings	15-20 years
Machinery and Equipment	3-10 years
Furniture and Fixtures	3-10 years
Vehicles	3-5 years
Sewer Lines	40 years

Interest is capitalized on proprietary fund assets acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2001, interest costs incurred on construction projects in the proprietary funds were not material.

I. **Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vested method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

I. **Compensated Absences** (Continued)

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. **Accrued and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available resources. Bonds and long-term loans are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Under Ohio law, a debt retirement fund may be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the presentation of short-term note liability in the fund that received the note proceeds, with long-term general obligations presented in the general long-term obligations account group. Principal and interest payments on matured general long-term obligation and special assessment debt are reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement has been split among the appropriate funds and account group. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Contributed Capital

Contributed capital represents tap-in fees which exceeded the cost of physical connection to the system and contributions made from other funds.

M. Reserves of Fund Equity

Reservations of fund balance are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, including amounts legally segregated for a specific future use. Fund balances are reserved for encumbrances, inventories of supplies and materials, and prepaid items.

N. Memorandum Only - Total Columns

The "Totals" columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE**

A. **Fund Deficits**

Fund balances/retained earnings at December 31, 2001, included the following individual fund deficits:

<u>Special Revenue</u>	
EMS Levy	\$ 12,625
<u>Debt Service</u>	
Bond Retirement	162,051
<u>Capital Projects</u>	
Industrial Park Phase II	698,377
Issue II Abbey Road	1,274

The fund deficit in the EMS Levy Fund resulted from the recognition of expenditures on the modified cash basis. The deficit does not exist under the cash basis of accounting.

The fund deficit in the debt service fund is the result of reclassing notes to the proper funds in the prior year. The deficit does not exist under the cash basis of accounting. The general fund provides operating transfers when cash is required, not when accruals occur.

The fund deficit in the Industrial Park Phase II Project resulted from the reclassification of note proceeds to a note payable account the prior year.

The fund deficit in Issue II Abbey Road is because the project started at the end of 2001. Revenue has not come in as of year end.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2001
 (CONTINUED)

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE**

B. Change in Accounting Principle

For December 31, 2001, the City has adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. GASB Statement No. 36 modified the provisions of GASB Statement No. 33 for certain specific nonexchange revenues.

GASB Statement No. 33 and GASB Statement No. 36 were required for the current year. These statements clarified the timing requirements of recognizing assets, liabilities, revenues, and expenditures/expenses associated with nonexchange transactions. As a result of implementation of the statements, a restatement of prior year fund balance is necessary as described below.

Due to the implementation of GASB Statement No. 33, prior year fund balances were restated for the following funds:

General Fund

Fund Balance as of December 31, 2000	\$3,469,703
Property Tax Revenue	(110,954)
Intergovernmental Revenue	134,721
Restated Balance, December 1, 2000	3,493,470

Special Revenue Fund

Fund Balance as of December 31, 2000	2,982,236
Property Tax Revenue	(326,420)
Intergovernmental Revenue	49,877
Component Units (See Note 2C)	88,879
Restated Balance, December 31, 2000	2,794,572

Debt Service Fund

Fund Balance as of December 31, 2000	312,146
Property Tax Revenue	(39,626)
Restated Balance, December 31, 2000	272,520

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

C. **Accounting Error**

The accompanying financial statements have two component units which have not been accounted for in the past. The component units should be reported as a special revenue fund. As a result, prior year fund balance for special revenue fund was restated by \$88,879.

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents, and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the City into three categories:

Category 1 consists of “active” funds - those funds required to be kept in “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions applying for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreement secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasury Asset Reserve of Ohio (STAROhio).

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state,

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging institution or its trust department or agent but not in the City's name.

Investments

Category 1 - Insured or registered with securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. **Deposits**

At year end, the carrying amount of the City's deposits was \$7,008,492 including \$3,300 of cash on hand, and the bank balance was \$7,541,186. Of the bank balance, \$452,536 was fully insured by federal depository insurance. The remainder was uninsured but collateralized by a collateral pool of assets held by an agent of the financial institution, but not in the City's name (category 3).

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

B. Investments

Investments (as defined by GASB 3) as of December 31, 2001 were as follows:

	Cost	Fair Value
Repurchase Agreements (Category 3)	\$ 1,799,524	\$ 1,799,524
STAROhio (not categorized)	7,406,202	7,406,202
Total Investments	\$ 9,205,726	\$ 9,205,726

STAROhio is not categorized since those investments are not evidenced by securities that exist in physical or book entry form.

All of the investments are carried at cost except STAROhio, which is carried at fair value.

C. Reconciliation of Cash, Cash Equivalents, and Investments

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash & Cash Equivalents/Deposits	Investments
GASB Statement No. 9.	\$8,825,568	\$7,388,650
Investments:		
Certificate of Deposit	7,388,650	(7,388,650)
Repurchase Agreement	(1,799,524)	1,799,524
STAROhio	(7,406,202)	7,406,202
GASB Statement No. 3	\$7,008,492	\$9,205,726

Certificate of deposits with an original maturity of three months or less are treated as cash equivalents (as defined by GASB No. 9).

The City maintains a cash pool that is available for use by all funds and accounts except for the Mayors Court Bond Fund, Hospitalization Fund, Baseball Booster and Soccer Club, of \$119,836 which is maintained separately and was fully insured.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 3: **CASH, CASH EQUIVALENTS AND INVESTMENTS** (Continued)

C. **Reconciliation of Cash, Cash Equivalents, and Investments** (Continued)

Also maintained separately is a Matured Bond and Coupon Account with National City Bank with a year end balance of \$8,197.

NOTE 4: **RECEIVABLES**

Receivables at December 31, 2001, consisted primarily of taxes, billings for utility services, special assessments, accrued interest on investments, and intergovernmental receivables arising from grants, entitlements, and shared revenues.

No allowances for doubtful accounts have been recorded as uncollectible amounts are expected to be insignificant.

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The latest reappraisal in Cuyahoga County was in 2000 (2001 collection year). Real property taxes are payable annually or semi-annually. If paid annually, the first payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 30 unless extended.

Taxes collected from tangible personal property (other than public utility property) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2001
 (CONTINUED)

NOTE 4: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property tax collected in one calendar year is levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of North Royalton. The County Auditor periodically remits to the City its portion of the taxes collected.

The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

Real Estate:	
Residential/Agricultural	\$ 531,884,840
Commercial/Industrial	110,339,010
Tangible Personal Property:	
Real Estate	19,349,440
Public Utilities	28,782,724
Total	<u>\$ 690,356,014</u>

B. **Income Taxes**

The City levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the City. The City allows a credit of twenty-five percent for income tax paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2001
 (CONTINUED)

NOTE 4: **RECEIVABLES** (Continued)

B. **Income Taxes** (Continued)

Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds are credited to the following funds: 12.00 percent to the street construction, maintenance and repair special revenue fund, \$126,000 per year to the police facility operations special revenue fund, 3.00 percent to the City income tax fund and 1.00 percent to the Office on Aging special revenue fund. The remaining balance will go to the general fund.

C. **Due From Other Governments**

A summary of Due From Other Governments follows:

	<u>Amount</u>
<u>General Fund</u>	
Homestead and Rollback	\$ 50,087
Local Government Tax	270,516
Liquor Permits	702
Estate Tax	90,849
Total General Fund	412,154
<u>Special Revenue Funds</u>	
Homestead and Rollback	\$ 166,362
Permissive Tax	13,125
Gasoline Tax	278,117
Auto Registration	119,732
Grants	12,972
Total Special Revenue Funds	590,308
<u>Debt Service Fund</u>	
Homestead and Rollback	17,888
Total Debt Service Fund	17,888
Total	\$ 1,020,350

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 5: **FIXED ASSETS AND DEPRECIATION**

A summary of changes in general fixed assets follows:

	Balance December 31, 2000	Additions	Deletions	Balance December 31, 2001
Land	\$ 905,070	\$ 41,828	\$ 0	\$ 946,898
Buildings	5,620,252	236,449	0	5,856,701
Improvements other than Buildings	614,523	0	0	614,523
Machinery and Equipment	1,963,304	144,494	(116,819)	1,990,979
Furniture and Fixtures	336,846	20,728	(7,580)	349,994
Vehicles	3,412,055	790,735	(296,214)	3,906,576
Asset under Capital Lease	171,853	0	0	171,853
Total	\$ 13,023,903	\$ 1,234,234	\$ (420,613)	\$ 13,837,524

A summary of the enterprise fund's property, plant and equipment at December 31, 2001 follows:

	Balance December 31, 2000	Additions	Deletions	Balance December 31, 2001
Land	\$ 1,352,426	\$ 0	\$ 0	\$ 1,352,426
Buildings	16,168,106	0	0	16,168,106
Improvements other than Buildings	4,224,509	0	0	4,224,509
Machinery and Equipment	11,005,886	14,571	(26,552)	10,993,905
Furniture and Fixtures	84,664	0	0	84,664
Vehicles	521,690	58,782	(86,992)	493,480
Sewer Lines	19,764,423	0	0	19,764,423
Total	53,121,704	73,353	(113,544)	53,081,513
Less: Accumulated Depreciation	(27,855,184)	(2,067,624)	113,261	(29,809,547)
Net Fixed Assets	\$ 25,266,520	\$ (1,994,271)	\$ (283)	\$ 23,271,966

NOTE 6: **CONTINGENCIES AND COMMITMENTS**

The City is party to various legal proceedings. City management is of the opinion that ultimate settlement of such claims not covered by insurance will not result in a material adverse effect on the City's financial position.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2001
 (CONTINUED)

NOTE 6: **CONTINGENCIES AND COMMITMENTS** (Continued)

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being allowable expenditures under federal and state regulations. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

NOTE 7: **CONSTRUCTION COMMITMENTS**

As of December 31, 2001, the City had the following significant commitments with respect to Capital Projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
SR 82 Royalton Road Intersection Rehabilitation	\$ 386,030
Storm Sewer Drainage	165,400
Abbey Road Reconstruction	126,079
	<u>\$ 677,509</u>

NOTE 8: **JOINTLY GOVERNED ORGANIZATIONS**

A. **Southwest Council of Governments**

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. The Council's Board is comprised of one member from each of the sixteen participating entities. The Board exercises total control over the operation of the Council including budgeting, appropriating, contracting, and designating management.

Budgets are adopted by the Board. Each City's degree of control is limited to its representations on the Board.

The Council has established two subsidiary organizations: the Material Response Team (HAZMAT), which provides hazardous material protection and assistance, and the Southwest Enforcement Bureau, which provides extra assistance to cities in the form of a SWAT team.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 8: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

B. Parma Community General Hospital Association

The Parma Community General Hospital is a not for profit adult care hospital controlled by the Parma Community General Hospital Association. The Board of Trustees of the Association is composed of mayoral appointees from the cities of North Royalton, Parma, Brooklyn, Parma Heights, Seven Hills, and Brooklyn Heights. Each city has two representatives on the Board, other than Parma, which has six. The operations, maintenance, and management of the hospital is the exclusive charge of the Parma Community General Hospital Association. The City's degree of control is limited to its appointments to the Board of Trustees.

Additions to the hospital have been financed by the issuance of hospital revenue bonds. The bonds are backed solely by the revenues of the hospital. The cities have no responsibility for the payment of the bonds, nor does any city have any ongoing financial interest in or responsibility for the hospital.

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization in the general fixed assets account group. The City of North Royalton made no contributions to the hospital during the year. The hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio.

NOTE 9: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2001, the City contracted with several companies for various types of insurance as follows:

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 9: **RISK MANAGEMENT** (Continued)

<u>Company</u>	<u>Limits</u>	<u>Deductible</u>
Special National Insurance		
Commercial General Liability	\$ 1,000,000/\$3,000,000	No Deductible
Commercial Automobile Liability	\$ 1,000,000	No Deductible
Automobile Physical Damage	Included	\$ 250/\$500
Property Coverage	\$ 43,473,896	\$ 500
Public Officials Liability	\$ 1,000,000	\$ 10,000
Law Enforcement Liability	\$ 1,000,000	\$ 10,000
Crime Coverage	\$ 25,000	\$ 250
Umbrella Liability	\$ 20,000,000	\$ 10,000
Inland Marine Coverage	\$ 3,118,926	\$ 500
Blanket Position Bond	\$ 25,000	\$ 250
Employee Benefits Liability	\$ 1,000,000/\$3,000,000	\$ 1,000
Ohio Stop Gap Liability	\$ 1,000,000	None
Travelers Insurance Company		
Boiler and Machinery	\$ 42,533,586	\$ 1,000
American Alternative Insurance Company		
Firefighters General Liability	\$ 1,000,000/\$2,000,000	None
Firefighters Errors & Omissions	\$ 1,000,000/\$2,000,000	None
Peerless Insurance		
Individual Public Employees Bonds	\$ 25,000/\$50,000	None
Redland Insurance Company		
Flood Insurance	\$ 896,900	\$ 500

There has not been a significant reduction in coverage from the prior year and settled claims have not exceeded this coverage in any of the past three years.

The City pays the State Workers' Compensation System a premium based on a rate of \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The City manages the hospital/medical, dental, and life insurance benefits for its employees on a self-insured basis through the hospitalization self-insurance internal service fund. Payments to the fund are made from the fund from which each employee is paid. The insurance premium rates are determined by the City and COBRA rates are determined by the third party administrator, Administrative Service Consultants. Administrative Service Consultants processes and pays the claims. An excess coverage insurance (stop-loss) policy covers claims in excess of \$25,000 per employee and an aggregate of \$768,246 per year.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2001
 (CONTINUED)

NOTE 9: **RISK MANAGEMENT** (Continued)

The claims liability of \$3,324 reported in the fund at December 31, 2001, was estimated by the third party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expense and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 2000 and 2001 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2000	\$ 116,779	\$ 745,337	\$ 720,485	\$ 141,631
2001	\$ 141,631	\$ 398,491	\$ 536,798	\$ 3,324

In July 2001, the City's health insurance changed from self-insurance to commercial insurance with monthly premiums for employee medical, dental, and eye coverage.

NOTE 10: **EMPLOYEE BENEFITS**

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time is paid upon retirement from the City. Employees earn sick leave at different rates depending upon length of service and type of employment. Each retiree is entitled to one-half of their sick leave hours, up to a maximum of 650 hours of accumulated, unused sick leave after they have been employed with the City for ten years.

In addition, employees of the City can accumulate compensatory time for the overtime hours worked, generally based upon time and half of hourly rates. Employees are entitled to receive payments in cash for their accumulated hours upon retirement or termination from the City's payroll.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 10: **EMPLOYEE BENEFITS** (Continued)

Compensated Absences (Continued)

In accordance with Government Accounting Standards Board (GASB) Statement No. 16, the City has accrued a liability for compensated absences at December 31, 2001. For governmental fund types, the City recognized the current portion of this liability at December 31, 2001, that is expected to be liquidated with expendable available financial resources. Accumulated vacation, sick leave, and compensatory time totaled \$217,515, and is recorded as a liability within the respective fund type since it was used within sixty days of year-end. The remainder of the compensated absences liability for governmental fund types amounted to \$1,764,345, and is recorded as a liability in the General Long-Term Debt Group since the timing of future payments is not determinable. For enterprise funds, accumulated vacation, compensatory time, and accumulated sick leave was \$154,865 at December 31, 2001. These amounts are recorded as liabilities in the respective enterprise funds.

NOTE 11: **DEFINED BENEFIT PENSION PLANS**

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. **Public Employees Retirement System**

The following information was provided by PERS of Ohio to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

The City of North Royalton contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that includes financial statements

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Public Employees Retirement System** (Continued)

and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent. The 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll, 9.25 percent to fund the pension and 4.3 percent to fund health care. The 2000 and 1999 employer contribution rates were 10.84 and 13.55 percent. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$599,357, \$473,969, and \$571,381 respectively. The full amount has been contributed for 2000 and 1999; 72 percent has been contributed for 2001 with the remainder being reported as a liability within the General Long-Term Obligation Account Group.

The PERS of Ohio provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. The health care coverage provided by the PERS of Ohio is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was 4.3 percent of covered payroll, which amounted to \$190,205.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Public Employees Retirement System** (Continued)

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2000. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2000 was 7.75 percent. An annual increase of 4.75 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75 percent base increase, were assumed to range from 0.54 percent to 5.1 percent. Health care costs were assumed to increase 4.75 percent annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2000 was \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

B. **Ohio Police and Fire Pension Fund**

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing, multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2001, 2000, and 1999 were \$399,844, \$407,860, and \$385,424 for police and \$367,682, \$382,273, and \$337,193 for firefighters, respectively. The full amount has been contributed for 2000 and 1999; 69 percent has been contributed for 2001 for police and fire with the remainder being reported as a liability within the General Long-Term Obligations Account Group.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-third basis. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2001 covered payroll that was used to fund postemployment health care benefits was \$153,788 representing 7.50 percent of covered payroll for police and \$114,901 representing 7.50 percent of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2000, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 12,853 for police and 10,037 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2000 were \$106,160,054 which was net of member contributions of \$5,657,431.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 12: **SHORT-TERM DEBT**

Short-term debt outstanding at December 31, 2001 consisted of the following:

<u>Description</u>	<u>January 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2001</u>
General Obligation Notes Payable				
Industrial Park	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Motor Vehicles	500,000	400,000	500,000	400,000
Total	<u>\$ 1,700,000</u>	<u>\$ 1,600,000</u>	<u>\$ 1,700,000</u>	<u>\$ 1,600,000</u>

Proceeds from the notes were used for street improvements and motorized vehicle and equipment purchases.

NOTE 13: **LONG-TERM DEBT**

Changes in long-term obligations of the City during 2001 were as follows:

	<u>Balance December 31, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2001</u>
<u>Enterprise Fund Obligations</u>				
<i>Ohio Water Development Authority Loan</i>				
1987 7.73% Wastewater Treatment				
Plant A Improvements	\$ 5,084,037	\$ 0	\$ 290,530	\$ 4,793,507
1991 5.20% Wastewater Treatment				
Plant B Renovations	2,686,487	0	198,106	2,488,381
1995 4.56% Wastewater Treatment				
Plant A Construction Loan	11,502,245	0	501,720	11,000,525
1996 4.04% Sludge Compost Facility				
Construction Loan	5,643,255	0	236,489	5,406,766
Total OWDA Loans	<u>24,916,024</u>	<u>0</u>	<u>1,226,845</u>	<u>23,689,179</u>
<i>Ohio Public Works Loan</i>				
1996 0% Sludge Compost				
Facility Loan	1,016,842	0	59,814	957,028
Total Enterprise				
 Fund Obligations	<u>\$25,932,866</u>	<u>\$ 0</u>	<u>\$ 1,286,659</u>	<u>\$24,646,207</u>

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 13: **LONG-TERM DEBT** (Continued)

	Balance December 31, <u>2000</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2001</u>
<u>General Long-Term Obligations</u>				
<i><u>General Obligations Bonds</u></i>				
1991 6.75% Real Estate	\$ 339,000	\$ 0	\$ 20,000	\$ 319,000
1991 6.75% Sidewalks	1,228	0	1,228	0
1993 5.50% Edgerton Road Waterline	9,718	0	748	8,970
1995 6.10% Wallings Road Sewer and Water	162,681	0	8,914	153,767
2001 Jail Improvement Refunding Bond	2,146,000	0	157,000	1,989,000
2001 James/Julia/Royalwood Road	21,050	0	650	20,400
<i>Total General Obligation Bonds</i>	<u>2,679,677</u>	<u>0</u>	<u>188,540</u>	<u>2,491,137</u>
<i><u>Special Assessment Bonds</u></i>				
1991 6.75% Cady Road Water	28,000	0	2,000	26,000
1991 6.75% Sidewalks	6,772	0	6,772	0
1993 5.50% Edgerton Road Waterline	55,284	0	4,252	51,032
1995 6.10% Wallings Road Sewer and Waterline	202,320	0	11,086	191,234
2001 James/Julia/Royalwood Road	404,950	0	12,350	392,600
<i>Total Special Assessment Bonds</i>	<u>697,326</u>	<u>0</u>	<u>36,460</u>	<u>660,866</u>
<i><u>Ohio Water Development Authority Loan</u></i>				
1983 6.25% IMI Interceptor	7,350	0	7,350	0
<i><u>Other General Long-Term Obligations</u></i>				
Capital Lease Obligation	112,199	0	35,737	76,462
Due to Other Governments	326,777	400,593	326,777	400,593
Police and Fire Pension	143,094	0	1,886	141,208
Compensated Absences	1,397,965	366,380	0	1,764,345
<i>Total Other General Long-Term Obligations</i>	<u>1,980,035</u>	<u>766,973</u>	<u>364,400</u>	<u>2,382,608</u>
Total General Long-Term Obligations	<u><u>\$ 5,364,388</u></u>	<u><u>\$ 766,973</u></u>	<u><u>\$ 596,750</u></u>	<u><u>\$ 5,534,611</u></u>

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 13: **LONG-TERM DEBT** (Continued)

OWDA and OPWC loans, except for the IMI interceptor, will be paid from sewer user charges. General obligation bonds will be paid from the debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. All loans payable will be paid from fund revenues in the general fund, special revenue funds, and capital projects funds. The OWDA loan for the IMI interceptor is a special assessment obligation which will be paid from the proceeds of special assessments levied against benefitted property owners. The due to other governments liability represents amounts owed to retirement systems paid outside the available period and will be paid from the fund from which the employees' salaries are paid. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. Claims and judgments payable will be paid from property taxes.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2001 are as follows:

	General Obligation Bonds	Special Assessment Bonds	Ohio Water Development Authority	Ohio Public Works Loan	Police and Fire Pension
2002	\$ 318,283	\$ 67,284	\$ 2,501,466	\$ 59,814	\$ 7,948
2003	313,966	66,251	2,501,466	59,814	7,948
2004	313,871	65,650	2,501,466	59,814	7,948
2005	313,627	64,512	2,501,466	59,814	7,948
2006	316,870	64,335	2,501,465	59,814	7,948
2007-2011	1,560,077	305,764	12,339,704	299,071	39,738
2012-2016	63,670	245,623	7,755,027	299,071	39,738
2017-2020	37,977	173,259	462,111	59,816	39,738
2021-2026	0	0	0	0	39,738
2027-2031	0	0	0	0	39,738
2032-2036	0	0	0	0	27,460
Totals	<u>\$3,238,341</u>	<u>\$1,052,678</u>	<u>\$33,064,171</u>	<u>\$ 957,028</u>	<u>\$ 265,890</u>

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 14: **CAPITAL LEASE**

In 1999, the City entered into a capital lease agreement requiring monthly installments of principal and interest of \$3,580 through December, 2003. The lease relates to a packer truck which is leased under a long term agreement which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*.

The future minimum lease payments required under the capital lease are as follows:

Year ending December 31:	
2002	42,963
2003	39,383
Minimum Lease Payments	82,346
Less: Amount Representing Interest	(5,884)
Present Value of Net Lease Payments	\$ 76,462

NOTE 15: **SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains five enterprise funds which provide sewer services. Financial information for the year ended December 31, 2001 for these enterprise funds is summarized as follows:

	Wastewater Treatment	Wastewater Maintenance	Wastewater Capital Improvement	Wastewater Repair & Improvement	Total
Operating Revenues	\$ 1,761,432	\$ 413,842	\$2,073,751	\$ 194,535	\$ 4,443,560
Operating Expense	1,495,371	454,970	2,067,624	28,354	4,046,319
Depreciation Expense	0	0	2,067,624	0	2,067,624
Operating Income	266,061	(41,128)	6,127	166,181	397,241
Net Income	287,003	(5,797)	(1,201,757)	217,494	(703,057)
Net Contributions	0	0	677,446	0	677,446
Net Additions	0	0	(2,031,793)	37,239	(1,994,554)
Net Working Capital	1,084,645	946,015	1,929,555	1,385,403	5,345,618
Total Assets	1,272,856	1,049,204	25,114,887	1,426,236	28,863,183
OWDA Loan Payable	0	0	23,689,179	0	23,689,179
OPWC Loan Payable	0	0	957,028	0	957,028
Total Fund Equity	1,088,208	990,361	468,680	1,424,128	3,971,377

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(CONTINUED)

NOTE 16: **SUBSEQUENT EVENT**

The City issued \$300,000 of notes to pay costs of acquiring motorized vehicles and equipment. Interest on these bond anticipation notes is 2.45%.

The City entered into a capital lease agreement with FirStar Bank for a pumper truck. The principal amount is \$229,848, and the interest rate is 3.8%.

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**REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor, Finance Director, and
Members of City Council
City of North Royalton, Ohio

We have audited the general purpose financial statements of the City of North Royalton, Ohio (the City), as of and for the year ended December 31, 2001, and have issued our report thereon dated June 14, 2002. The City adopted Governmental Accounting Standards Board Statements No. 33 and 36 for the year ended December 31, 2001, as described in Note 2 of the general purpose financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of North Royalton's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. The results of our tests disclosed immaterial instances of noncompliance that are required to be reported under Government Auditing Standards which we have reported to the management of the City of North Royalton, Ohio, in a separate letter dated June 14, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of North Royalton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City of North Royalton's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Reportable conditions are described below.

Soccer Club-Unreconciled Bank Account

Condition and Criteria

We noted that bank statements were not reconciled to the general ledger. Therefore, at year end there is an unreconciled amount of \$1,152. Bank reconciliations should be performed on a monthly basis. Also, there are no receipts to support the amount of cash received from soccer participants.

Effects

We are unable to determine if all revenues and expenditures are correctly recorded. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are current.

Cause

There are no procedures to reconcile bank statements to the general ledger. Also, no supporting documentation is available to reconcile to receipts recorded by the City.

Recommendation

We recommend that all bank accounts be reconciled each month prior to the preparation of the monthly financial statements. The City's Finance Department should monthly review reconciliations prepared by the Soccer Club. Also, all participant fees should be supported with receipt documentation.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, members of City Council, and management, and is not intended to be and should not be used by anyone other than these specified parties.

June 14, 2002

James G. Zupka
Certified Public Accountant

CITY OF NORTH ROYALTON
STATUS OF PRIOR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2001

The prior audit report, as of December 21, 2000, included no citations. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit report.



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OFFICE OF THE AUDITOR

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CITY OF NORTH ROYALTON

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 1, 2002**